

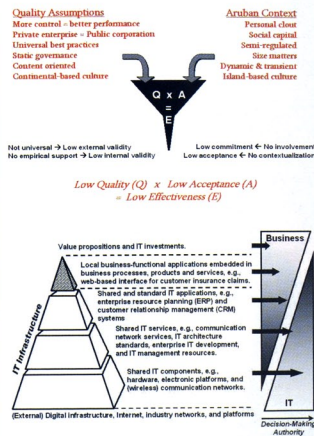
THE SCIENCE AND ART OF STEERING IT: HOW TO GOVERN INFORMATION TECHNOLOGY FOR BUSINESS VALUE

-PART 2-

FROM MYTH TO MEANING

Similar to corporate governance, IT governance is a topic that has recently been re-discovered. The rich vocabulary emerging from the literature is like a terminological jungle in which any newcomer plants a seed. In line with our understanding of corporate governance, IT governance is defined as the distribution of IT decision-making rights and responsibilities among enterprise stakeholders, and the procedures and mechanisms for making and monitoring strategic decisions regarding IT. IT governance is thus the enterprise management system through which an organization's portfolio of IT is directed and controlled. The foregoing interpretation alludes to several IT governance 'myths' that exist - and still persist -, which need to be dispelled if we are to move forward:

- IT governance focuses on specific IT decisions. IT governance does not describe what specific IT decisions are made, rather, IT governance is the set of decisions about who and how IT decisions are made. It specifies the structures and processes through which the organization's IT objectives are set, and the means of attaining those objectives and monitoring performance.
- IT governance is the responsibility of the CIO (Chief Information Officer) or IT director. While IT governance is certainly an essential element of a CIO's portfolio, the CIO is not the primary stakeholder (See Exhibit 1). Still too often, corporate executives and business managers assume that the CIO is taking care of IT governance affairs. Abdication of responsibility and accountability by the business, and 'pointing the finger' at IT will not resolve the IT value paradox, nor the many misalignments between business and IT executives.



- IT governance is concerned with organizing the IT function. Traditionally, the IT function has been regarded as a single homogenous function. However, given the widespread proliferation and infusion of IT systems in organizations, involving e.g., electronic networks platforms, digital architectures, shared IT services, and local business-embedded IT applications, the notion of a 'single homogenous' IT function, whether centralized or decentralized, is obsolete.
- IT governance is a new form of 'old school' IT management. Whereas the domain of IT management focuses on the efficient and effective supply of IT operations, services and products, IT governance faces the dual demand of contributing to present business operations, and simultaneously positioning the IT function for meeting future business demands. This does not undermine the importance or complexity of IT management, but goes to indicate that IT governance is both internally

and externally oriented, spanning both present and future timeframes.

TRADITIONAL MODELS FOR IT GOVERNANCE

The terms centralization and decentralization provide a dichotomy that is meaningless when applied as a generality to IT and IT governance. Centralization and decentralization can be applied to each of the main elements in the portfolio of IT, i.e., IT investments, IT applications, IT services, IT architecture, IT infrastructure, and IT networks, thus yielding distinct patterns in the governance of IT. In a centralized IT governance model, corporate and senior level executives have decision-making authority for IT investments, business applications, shared architecture and network services, and technology network components. When all IT decision-making authority is allocated to different lines of business or business units, the structure is described as a decentralized IT governance model.

In general, and all other factors being equal, centralization leads to greater specialization, economies of scale, consistency, and standardized controls, while decentralization enables business control, (a sense of) business ownership, and provides greater responsiveness and flexibility to business needs. Furthermore, decentralized governance is more conducive of innovation. However, excessive flexibility under decentralization may lead to variable standards, which may ultimately result in lower flexibility, and specialization under centralization incurs specific strategic risks due to bounded rationality and information overload.

THE POLITICS OF IT GOVERNANCE

A political view of IT governance suggests, however, that the debate concerning centralization versus decentraliza-

tion is used primarily to further the goals of specific stakeholders, in ways that might not help to meet enterprise goals - recall the six blind men and the elephant. There are important differences among stakeholders within the enterprise, leading to the presence of conflict and disagreement over goals and the allocation of strategic resource (including IT). These stakeholders represent different groups or individuals that influence - and are affected by - decisions regarding IT.

Power struggles, political turbulence, and cultural clashes are endemic to the governance of IT, and the question is more often 'who's way is it going to be?', rather than, 'which way is the best?'. Although not always explicitly recognized, documented and/or understood, conflict-resolution and coalition building are key processes for the effective functioning of any type of IT governance model. Besides politics, the potential risk in contemporary business environments is that either centralization or decentralization 'fixes' (and fixates) the organization into a rigid posture.

Over the past decade many - if not most - organizations have set out to achieve the 'best of both worlds' by adopting a federal IT governance model. Under federal IT governance, IT infrastructure - technology supply - decisions are centralized, and IT application - technology usage - decisions are decentralized. While traditionally focused on either efficiency or flexibility, currently IT governance faces the dual demands for flexibility and speed, and efficiency and standardization. Business and IT executives have come to recognize that they need to meet the demands of both customized, high quality IT products and services, and they need to standardize and achieve cost- and time-compression in order to meet enterprise-wide needs in an efficient, reliable and effective manner.

The degree to which organizations can achieve these competing demands is a measure of an organization's strategic flexibility, i.e., developing differentiated capabilities to pro-act in an integrated manner to unanticipated changes. Rather than being just efficient and transparent, one of the key challenges in con-

temporary organizations is the inclusion of certain 'degrees of flexibility' within IT governance. Strategic flexibility for IT governance involves addressing multiple value drivers, including:

- The provisioning and servicing of cost-effective, scalable IT infrastructures and IT operations that enable cycle time improvement and streamlined, enterprise-wide business processes;
- Offering business leading-edge IT products and services, and the development and delivery of integrated IT solutions that facilitate business responsiveness to customer demands in a rapid and efficient manner;
- The realization of enterprise value in terms of operational, product and customer excellence, and sustainable financial growth.

Consider for instance the case of Johnson & Johnson (See Exhibit 2). The competing drivers towards improving cost-efficiencies and IT standardization, yet also business responsiveness and IT innovation, led Johnson & Johnson to adopt a federal IT governance model. The complexity of this global business would dictate a decentralized model, which was the traditional IT governance approach. Yet, the need to cut costs, standardize IT, and improve IT performance led Johnson & Johnson to centralize IT infrastructure decisions. The case of Johnson & Johnson illustrates how IT governance is subject to the pulls and pressures of multiple, rather than singular strategic forces, and why conflict-resolution, negotiation, and coalition building are essential to IT governance.

Exhibit 2. Going Federal: Evolving IT Governance at Johnson & Johnson.

While the implementation of the federal IT governance model has paid off for Johnson & Johnson (e.g., cheaper maintenance costs, eliminated duplicate IT developments, enhanced pharmaceutical R&D, improved time-to-market for new products, and profit growth), and they have been able to develop unprecedented levels of cooperation between, traditionally independent business units, it was a perilous and painstaking transformation.

Earlier attempts to (re-) centralize IT failed due to cultural barriers and business' resistance to change and relinquish of IT control. According to the CIO, after designing the new federal IT governance structure, it was hard getting all of the business units to go along with some of the most simple changes in policy.

"I would get '190 land mines' in any given day. Some business units would try to convince me they could not adopt some corporate technology standards, or share the costs of upgrading the infrastructure". Originally, Johnson & Johnson hoped to create a single, centralized strategy, but soon they realized that only a federal arrangement would work.

Contemporary IT governance cannot afford to focus on service infrastructure at the expense of solution integration, or vice versa. Furthermore, strategic innovation is difficult - if not impossible - to achieve without some base-line performance in service infrastructure and solution integration.

As this case illustrates, the federal IT governance model challenges managers in local business units to surrender control over certain business-specific IT domains for the well-being of the enterprise, and to develop corporate business-IT partnerships. The challenge is to control IT decision-making, yet empower different stakeholders to take responsibility for IT decisions - the question is how...

To be continued...

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